

COUNCIL BLUFFS CITY WATER WORKS
FINANCIAL STATEMENTS AND SCHEDULE
DECEMBER 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2013
Mark Genereux	Member	January 31, 2012
Glen M. Mitchell	Member	June 30, 2012
Carl L. Heinrich	Member	June 30, 2015
Maureen R. Kruse	Member	June 30, 2016

Water Works' Officials

Douglas P. Drummey	General Manager	Indefinite
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

We have audited the accompanying balance sheets of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of December 31, 2011 and 2010, and the related statements of revenues and expenses, fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the "Code of Iowa" and "Governmental Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council Bluffs City Water Works as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued a report dated April 13, 2012 on our consideration of the Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 1 through 4 and 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Water Works' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 13, 2012

**Council Bluffs Water Works
Council Bluffs, Iowa**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2011 (Audited)**

Council Bluffs Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ending December 31, 2011. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues increased 7.10% or \$604,150 from calendar year 2010 to 2011.
- ◆ The Water Works' operating expenses increased by 8.34% or \$684,716, more in calendar year 2010 to 2011.
- ◆ The Water Works' net assets decreased 1.29% or \$516,402, from December 31, 2010 to December 31, 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Water Works financial activities.

Financial Statements consist of Balance Sheets, Statements of Revenues and Expenses, Statements of Fund Equity, and Statements of Cash Flows. These provide information about the activities of the Council Bluffs Water Works as a whole and present an overall view of the Water Works finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Works' budget for the year.

Other Supplementary Information provides comparative financial data with a prior year and statistical data.

FINANCIAL ANALYSIS

Balance Sheets

The balance sheets present the assets, liabilities, and fund equity of the Water Works, as of the end of the calendar year. The purpose of this statement is to present a summary of the Water Works to the readers of the financial statements. The balance sheets include year-end information concerning current assets and liabilities, and fund equity (assets less liabilities). Readers of the financial statements are able to determine the Water Works financial position by analyzing the increases and decreases in fund equity. This statement is a good source for readers to determine how much the Water Works owes

to outside vendors and creditors. The statement presents the available assets that can be used to satisfy those liabilities.

The largest portion of the Water Works' fund equity 87.3% is the investment in capital assets (building and structures, furniture and fixtures, tools and equipment, distribution system, meters and automotive equipment), less the related debt. The restricted portion of the net assets 2.1% includes resources that are subject to restrictions. The remaining net assets 10.6% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets		
December 31, 2011 and 2010		
	2011	2010
Current Assets	\$ 4,986,416	\$7,226,734
Restricted Assets	7,858,515	17,887,532
Capital Assets	61,975,623	47,826,934
Total Assets	\$ 74,820,554	\$ 72,941,199
Current Liabilities (payable from current assets)	\$ 1,619,685	\$ 1,324,831
Current Liabilities (payable from restricted assets)	2,894,821	2,035,562
Revenue bonds payable	30,648,015	29,406,371
Total Liabilities	\$ 35,162,521	\$32,766,764
Net Assets:		
Invested in capital assets, net of the related debt	\$ 34,649,469	\$ 32,980,372
Restricted	839,833	992,161
Unrestricted	4,168,731	6,201,902
Total Net Assets	\$ 39,658,033	\$ 40,174,435

Statement of Revenues and Expenses

Changes in total fund equity as presented on the statement of fund equity are based on the activity presented in the statement of revenues and expenses. The purpose of the statement is to present the revenues received by the Waters Works, both operating and non-operating, and the expenses incurred.

The Statement of Revenues and Expenses reflects a loss of \$543,118 in 2011. The primary reason for the loss was the 2011 Missouri River flooding incident that impacted both the Narrows Water Purification Plant and Administrative Campus on North 25th Street and construction of the new Council Point Water Purification Plant on Gifford Road. The Water Works expended considerable resources to protect its facilities from flood water throughout the summer of 2011. These unforeseen expenses totaled \$779,663. This event was declared a disaster and eligible assistance through FEMA. The Water Works is in the process of submitting requests for reimbursement for eligible expenses.

The Board of Trustees approved a rate increase of 8% in 2011 and an additional 8% in 2012.

In calendar year 2011, operating revenues increased by \$604,150 or 7.10%, primarily due to the increase in water rates.

A summary of revenues and expense for the years ending December 31, 2011 and 2010 is presented below:

Statements of Revenues and Expenses		
	<u>2011</u>	<u>2010</u>
Operating revenues:		
Metered water sales	\$ 8,519,060	\$ 7,813,357
Rental	106,826	103,640
Other	484,151	588,890
Total operating revenues	<u>\$ 9,110,037</u>	<u>\$ 8,505,887</u>
Operating expenses		
Facilities and Maintenance	\$ 743,984	\$ 684,453
Inventory Adjustment	(563)	(5,231)
Purification	1,107,119	1,176,500
Distribution and Meter	1,218,018	1,228,848
Consumer Accounting	366,911	384,571
Administration and General	2,298,726	1,611,137
Pension and Social Security	326,805	294,259
Depreciation	2,833,855	2,835,603
Total operating expenses	<u>\$ 8,894,856</u>	<u>\$ 8,210,140</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 323,981	\$ 192,248
Interest expense	(1,080,971)	(481,134)
Loss on disposal of equipment	(1,309)	(331)
Non-operating revenues, net	<u>\$ (758,299)</u>	<u>\$ (289,217)</u>
Excess of expenses over revenues	<u>\$ (543,118)</u>	<u>\$ 6,530</u>

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities include metered water sales, miscellaneous water sales, penalty charges, and service charges. Cash used from capital and related financing activities includes: principal payment of revenue bonds, interest paid on revenue bonds, interest paid on consumer deposits, additions to property, plant, and equipment, and contributions-in-aid of construction. Cash used by investing activities includes purchase of certificates of deposits and interest income.

CAPITAL ASSETS

At December 31, 2011 the Water Works had \$100,813,071 invested in capital assets, net of accumulated depreciation of \$39,220,353. Depreciation expense totaled \$2,813,027 for calendar year 2011. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2011, the Water Works had \$31,450,015 debt outstanding. See note 6 to the financial statements for more information.

ECONOMIC FACTORS

Council Bluffs Water Works continued to support development throughout the community to improve its financial position during the current calendar year.

- ◆ Facilities and the distribution system operated by Water Works require constant maintenance and upkeep.
- ◆ Chemical cost, electricity, maintenance of mains and services, and health insurance continue to put pressure on the Water Works resources.
- ◆ Continued growth in the community requires the Water Works to invest in new infrastructures to meet the growing demands of the community.
- ◆ Vulnerability and security improvement of our system will be an ongoing process.

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Works finances and operating activities. If you have any questions or require additional, information please contact the General Manager, 2000 North 25th Street, P O Box 309, Council Bluffs, Iowa 51502.

COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS
December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash (Note 2)	\$ 2,864,566	\$ 5,234,164
Inventory	593,685	608,432
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 for 2011 and 2010	1,129,840	1,032,819
Unbilled revenues	<u>306,182</u>	<u>303,972</u>
Total receivables	\$ 1,436,022	\$ 1,336,791
Prepaid insurance	92,143	47,346
Restricted assets (Note 3)	<u>7,858,515</u>	<u>17,887,532</u>
Total current assets	\$ 12,844,931	\$ 25,114,265
Property, plant and equipment, net (Note 4)	61,592,718	47,423,200
Capitalized Costs, net (Note 5)	<u>382,905</u>	<u>403,734</u>
	<u>\$ 74,820,554</u>	<u>\$ 72,941,199</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 185,780	\$ 226,647
Salaries payable	32,412	46,714
Accrued compensated absences	166,078	160,313
Accrued interest payable	89,019	47,183
Retainage payable	12,674	155,225
Due to City of Council Bluffs	331,722	388,749
Current portion of long term debt (Note 6)	<u>802,000</u>	<u>300,000</u>
Total current liabilities (payable from current assets)	\$ 1,619,685	\$ 1,324,831
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 632,825	\$ 606,680
Main extension escrow deposit	33,146	33,146
Accrued interest on consumer deposits	183,449	169,897
Construction costs payable	742,906	654,705
Retainage payable from restricted assets	<u>1,302,495</u>	<u>571,134</u>
Total current liabilities (payable from restricted assets)	\$ 2,894,821	\$ 2,035,562
Long term debt (Note 6)	<u>\$ 30,648,015</u>	<u>\$ 29,406,371</u>
Total liabilities	<u>\$ 35,162,521</u>	<u>\$ 32,766,764</u>
FUND EQUITY		
Contributed capital:		
Other governments	\$ 1,263,662	\$ 1,367,800
Customers and developers	<u>6,623,713</u>	<u>7,226,509</u>
Total contributed capital	\$ 7,887,375	\$ 8,594,309
Retained earnings	<u>31,770,658</u>	<u>31,580,126</u>
Total fund equity	<u>\$ 39,658,033</u>	<u>\$ 40,174,435</u>
	<u>\$ 74,820,554</u>	<u>\$ 72,941,199</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS
STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Metered water sales	\$ 8,519,060	\$ 7,813,357
Rental	106,826	103,640
Other	<u>484,151</u>	<u>588,890</u>
Total operating revenues	<u>\$ 9,110,037</u>	<u>\$ 8,505,887</u>
Operating expenses:		
Facilities and maintenance	\$ 743,984	\$ 684,453
Inventory adjustment	(563)	(5,231)
Purification	1,107,119	1,176,500
Distribution and meter	1,218,018	1,228,848
Customer accounting	366,911	384,571
Administration and general	2,298,726	1,611,137
Pension and social security	326,806	294,259
Depreciation and amortization	<u>2,833,855</u>	<u>2,835,603</u>
Total operating expenses	<u>\$ 8,894,856</u>	<u>\$ 8,210,140</u>
Operating income	<u>\$ 215,181</u>	<u>\$ 295,747</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 323,981	\$ 192,248
Interest expense	(1,080,971)	(481,134)
Loss on disposal of equipment	<u>(1,309)</u>	<u>(331)</u>
Nonoperating revenues, net	<u>\$ (758,299)</u>	<u>\$ (289,217)</u>
Excess of revenues over expenses/(expenses over revenues)	<u>\$ (543,118)</u>	<u>\$ 6,530</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2011 and 2010

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at January 1, 2010	\$1,497,307	\$ 7,674,180	\$ 9,171,487	\$30,841,293	\$40,012,780
Excess of revenues over expenses				6,530	6,530
Contributions-in-aid of construction	-	155,125	155,125	-	155,125
Transfers – Depreciation of contributed property, plant and equipment	<u>(129,507)</u>	<u>(602,796)</u>	<u>(732,303)</u>	<u>732,303</u>	<u>-</u>
Balances at December 31, 2010	\$1,367,800	\$ 7,226,509	\$ 8,594,309	\$31,580,126	\$40,174,435
Excess of expenses over revenues				(543,118)	(543,118)
Contributions-in-aid of construction	26,716	-	26,716	-	26,716
Transfers – Depreciation of contributed property, plant and equipment	<u>(130,854)</u>	<u>(602,796)</u>	<u>(733,650)</u>	<u>733,650</u>	<u>-</u>
Balances at December 31, 2011	<u>\$1,263,662</u>	<u>\$ 6,623,713</u>	<u>\$ 7,887,375</u>	<u>\$31,770,658</u>	<u>\$39,658,033</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 8,419,829	\$ 7,798,594
Cash received from other revenues	590,977	692,530
Cash paid to suppliers for goods and services	(3,559,134)	(3,035,218)
Cash paid to employees and on their behalf	(2,555,176)	(2,449,513)
(Payments) receipts for City sewer services net of collections	(57,027)	(146,860)
Net cash provided by operating activities:	<u>\$ 2,839,469</u>	<u>\$ 2,859,533</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	\$ (300,000)	\$ (735,000)
Revenue bonds issued	2,043,644	20,763,113
Loan fees paid	-	(250,000)
Interest paid on revenue bonds	(1,005,309)	(443,025)
Interest paid on consumer deposits	(20,274)	(17,785)
Additions to property, plant, and equipment	(16,306,842)	(7,845,455)
Main extension escrow deposits	-	(25,113)
Contributions-in-aid of construction	26,716	155,125
Net cash provided by (used in) capital and related financing activities	<u>\$ (15,562,065)</u>	<u>\$ 11,601,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of investments	\$ -	\$ 1,190,976
Interest received on investments	323,981	194,055
Net cash provided by investing activities	<u>\$ 323,981</u>	<u>\$ 1,385,031</u>
Net increase (decrease) in cash	\$ (12,398,615)	\$ 15,846,424
Cash at beginning of year	23,121,696	7,275,272
Cash at end of year	<u>\$ 10,723,081</u>	<u>\$ 23,121,696</u>
Reconciliation to balance sheets:		
Cash	\$ 2,864,566	\$ 5,234,164
Cash included in restricted assets	7,858,515	17,887,532
	<u>\$ 10,723,081</u>	<u>\$ 23,121,696</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 215,181	\$ 295,747
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,833,855	2,835,603
Changes in assets and liabilities:		
(Increase) Decrease in inventory	14,747	(10,142)
(Increase) Decrease in receivables	(99,231)	(14,763)
(Increase) Decrease in prepaid insurance	(44,798)	42,571
Increase (Decrease) in accounts payable	(40,866)	(169,408)
Increase (Decrease) in salaries payable	(14,302)	19,356
Increase (Decrease) in accrued compensated absences	5,765	(10,871)
Increase (Decrease) in Due to City of Council Bluffs	(57,027)	(146,860)
Increase (Decrease) in consumer deposits	26,145	18,300
Net cash provided by operating activities	<u>\$ 2,839,469</u>	<u>\$ 2,859,533</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2011 and 2010

Note 1. Summary of Significant Accounting Policies

The Council Bluffs City Water Works ("Water Works") is a related organization to the City of Council Bluffs, Iowa ("City") and is not included in the City's financial statements. The Mayor, with City Council concurrence, appoints individuals to the Water Works' Board of Trustees. The Water Works' Board of Trustees maintains oversight responsibility and, therefore, is responsible for selection of management personnel and all financial matters. The authority to adopt the annual budget, to incur debt and to fix rates and charges is vested in the Board of Trustees. The Water Works is exempt from state and Federal income taxes. The Water Works' financial statements are prepared on the accrual basis.

Reporting Entity

For financial reporting purposes, the Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Water Works to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Works' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

Note 1. Summary of Significant Accounting Policies – Continued

Revenues

Metered water sales include amounts billed to customers on a monthly and bimonthly cycle basis and unbilled amounts based on estimated usage from the latest meter reading to the end of the accounting period.

Short-term Investments

Investments include time certificates of deposit maturing within six months. Investments are carried at cost, which approximates market.

Consumer Accounts Receivable

The consumer accounts receivable balance includes an assessment for sewer fees, which the Water Works bills on behalf of the City. A corresponding liability represents the amount of consumer accounts receivable that will be remitted to the City upon collection.

Valuation of Inventories

Inventories are valued at the lower of cost (average cost method) or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method based on estimated useful lives.

Maintenance and repair of property, plant and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property, plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Accrued Compensated Absences

Accrued compensated absences represent vacation time, which has been earned by employees in the current year to be used in subsequent years. Sick leave does not vest and, therefore, is not accrued.

Contributions-in-Aid of Construction and Contributed Capital

Contributions of cash by governments, customers or developers are maintained by the Water Works as restricted assets and restricted liabilities until expended. When expended the contributor's costs of construction are recorded as property, plant and equipment and contributed capital. Further, a contribution may be in the form of a completed project in which the contributor's costs of construction is recorded directly into the property, plant and equipment and contributed capital accounts. Depreciation expense recognized on these assets is charged to contributed capital.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water Works considers all highly liquid instruments with a maturity date of three months or less when purchased to be cash equivalents.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

Note 1. Summary of Significant Accounting Policies – Continued

Use of estimates

In preparing the accompanying financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through April 13, 2012, which is the date the financial statements were available to be issued.

Note 2. Cash and Short-Term Investments

Listed below is a summary of the deposit and investment portfolios that comprise cash and investments on the December 31, 2011 balance sheet including restricted cash and cash equivalents and investments:

Deposits

For reporting purposes, Water Works' deposits are classified in these three categories of credit risk:

1. Insured or collateralized with securities held by the Water Works or by its agent in the Water Works' name.
2. Collateralized with securities held by the pledging financial institution for all Water Works' deposits as required by state law.
3. Uncollateralized, uninsured.

At December 31, 2011, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 10,723,081</u>	<u>\$ 11,133,703</u>	<u>\$ 500,000</u>	<u>\$ 10,633,703</u>	<u>\$ --</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2011 and 2010

Note 3. Restricted Assets

Restricted assets represent money set aside for payment of bonds, proceeds from bond issues to be used for capital improvements, or contributions of cash by governments, customers, or developers for costs of construction. These contributions are reflected as restricted assets until expended. Details of the accounts comprising restricted assets as of December 31, 2011 and 2010 are as follows:

	2011	2010
Consumer deposit fund cash	\$ 853,769	\$ 794,319
Sinking fund cash	148,487	102,534
Reserve fund investments	2,732,398	2,130,870
Build America Bond loan funds	<u>4,123,861</u>	<u>14,859,809</u>
	<u>\$ 7,858,515</u>	<u>\$ 17,887,532</u>

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2011 and 2010 consists of the following:

Description	Useful life in years	2011	2010
Land	-	\$ 2,208,406	\$ 2,208,406
Buildings and structures	20-40	13,378,714	13,229,740
Water distribution system	20-40	49,637,207	46,111,108
Meters	25-40	1,325,472	1,263,484
Tools and equipment	3-20	7,093,660	6,881,334
Automobiles and trucks	5	1,358,628	1,345,830
Office equipment	15	104,985	104,985
Work in progress		<u>25,705,999</u>	<u>12,719,828</u>
		\$ 100,813,071	\$ 83,864,714
Less accumulated depreciation		<u>(39,220,353)</u>	<u>(36,441,515)</u>
		<u>\$ 61,592,718</u>	<u>\$ 47,423,200</u>

As of December 31, 2011 the Water Works had contractual commitments of approximately \$29,480,885 for various construction projects of which \$21,192,990 has been completed. Included in the contractual commitments is \$29.2 million for the construction of a new water treatment facility, which is expected to be complete in September 2012. Funding for the water treatment facility will be through Water Revenue bonds as described in Note 6.

COUNCIL BLUFFS CITY WATER WORKS.

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

Note 5. Capitalized Costs

The costs incurred to obtain long term financing of the Water Revenue Bonds, State Revolving Funds and Build America Bonds have been capitalized and are being amortized as described below:

		2011	2010
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		<u>(12,724)</u>	<u>(11,049)</u>
Capitalized costs, net		<u>\$ 33,365</u>	<u>\$ 35,040</u>
Water Revenue Bonds, Series 2006			
Financing costs	180 months	\$ 16,626	\$ 16,626
Bond Discount		34,001	34,001
Less accumulated amortization		<u>(20,251)</u>	<u>(16,876)</u>
Capitalized costs, net		<u>\$ 30,376</u>	<u>\$ 33,751</u>
State Revolving Funds, \$10,353,000			
Financing costs	240 months	\$ 103,530	\$ 103,530
Less accumulated amortization		<u>(16,069)</u>	<u>(11,188)</u>
Capitalizes costs, net		<u>\$ 87,461</u>	<u>\$ 93,342</u>
Build America Bonds, \$20,000,000			
Financing costs	260 months	\$ 200,000	\$ 200,000
Less accumulated amortization		<u>(15,444)</u>	<u>(6,177)</u>
Capitalized costs, net		<u>\$ 184,556</u>	<u>\$ 193,823</u>
State Revolving Funds, \$5,000,000			
Financing costs	369 months	\$ 50,000	\$ 50,000
Less accumulated amortization		<u>(2,853)</u>	<u>(1,222)</u>
Capitalizes costs, net		<u>\$ 47,147</u>	<u>\$ 48,778</u>
Total capitalized costs, net		<u>\$ 382,905</u>	<u>\$ 403,734</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2011 and 2010

Note 6. Revenue Bonds

On April 1, 2004, the Water Works issued \$2,085,000 in tax exempt Water Revenue Refunding Bonds Series 2004, bearing interest at rates ranging from 1.5% to 2.6% due in 2010. The bonds were issued to crossover refund on December 1, 2005, \$2,020,000 of the outstanding Series 1995 Bonds, maturing December 1, 2006 through 2010, originally dated April 1, 1995. The balance of these bonds was retired as of December 31, 2010.

On December 21, 2005, the Water Works issued \$1,995,000 in tax exempt Water Revenue Bonds Series 2005, bearing interest at rates ranging from 3.9% to 4.1% due in 2020. In January 2006, the Water Works issued \$3,005,000 in tax exempt Water Revenue Bonds Series 2006, bearing interest at rates ranging from 3.5% to 4.375%. The 2005 and 2006 Series bonds were issued to finance the following projects: a new booster pump station, new ground storage reservoir with a 2 to 3 million-gallon capacity, and new high service pump.

The bond resolutions relating to the Series 2004, 2005 and 2006 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the maximum annual debt service on the then outstanding bonds. For the years ended December 31, 2011 and 2010 the ratio was 1.34 and 1.68 respectively.

The bond resolutions also provide for the maintenance of a revenue fund represented by a cash account into which all monies derived by the Water Works from revenue are to be deposited. These funds are transferred monthly, in amounts to meet specified requirements, to separate accounts for operations and maintenance, bond redemption and interest, bond reserves and capital projects. The Water Works was in compliance with all debt covenants for the years ended December 31, 2011 and 2010.

In 2010, the Water Works executed the final \$25 million of its \$35.353 million Water Revenue Bonds for construction of a second water treatment facility. The Water Revenue Bonds bear interest at 3.00% due in 2041. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2011 and 2010 the Water Works had drawn down \$28,070,015 and \$26,026,371, respectively. These bonds require that the Water Works produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond falling due in the same year. The Water Works was in compliance with this requirement for the years ended December 31, 2011 and 2010.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2011 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2012	\$ 802,000	\$ 979,840	\$ 1,781,840
2013	1,558,000	915,816	2,473,816
2014	1,613,000	864,756	2,477,756
2015	1,671,000	811,811	2,482,811
2016	1,733,000	757,011	2,490,011
Thereafter	<u>24,073,015</u>	<u>5,218,247</u>	<u>29,291,262</u>
	<u>\$ 31,450,015</u>	<u>\$ 9,547,481</u>	<u>\$ 40,997,496</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2011 and 2010

Note 7. Retirement Systems

IPERS

The Water Works is a participating employer in the Iowa Public Employees Retirement System ("IPERS"), which is a cost-sharing multiple-employer public employees retirement system designed as a supplement to Social Security. During 1998, IPERS adopted GASB Statement No. 25 and the Water Works adopted GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers".

All employees who did not participate in any other public retirement system in the State are eligible and must participate in IPERS. The pension plan provides retirement and death benefits, which are established by State statute. Generally, a member may retire at the age of 65 or any time after age 62 with 30 years or more of service or when age plus years of service equals or exceeds 88, and receive full benefits. However, regardless of meeting the Rule of 88 the member will not receive full benefits unless the member has at least 30 years of service. Members may also retire at the age of 55 or more at reduced benefits. Benefits vest after four years of service or after attaining the age of 55.

The plan is administered by the State of Iowa and the Water Works' responsibility is limited to payment of contributions. Contribution and benefit provisions are established by state law and may only be amended by the state legislature. On July 1, 2011, the State increased the required contributions from 4.50% to 5.38% for the employee and from 6.95% to 8.07% for the employer. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. Contribution rates are applied on the first \$245,000 of compensation in calendar years 2011 and 2010. The contribution paid by the Water Works totaled \$180,961 and \$155,935 for the years ended December 31, 2011 and 2010 respectively, and the contribution paid by employees totaled \$119,432 and \$100,105, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2011 and 2010 was \$2,409,203 and \$2,263,878 respectively, and the total Water Works' payroll for 2011 and 2010 was \$2,425,665 and \$2,289,104, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2011 and 2010 represented less than one percent of total contributions of all participating entities.

IPERS prepares a separate report that includes financial statements and required supplementary information. The report can be obtained by writing IPERS, 7410 Register Drive, P. O. Box 9117, Des Moines, Iowa 50306. IPERS does not invest in obligations of the State of Iowa or its political subdivisions.

Note 8. Contingencies

The Environmental Protection Agency (EPA) is currently evaluating the method of which the Water Works' discharges treatment plant residuals. As a result of this evaluation, the EPA may require the Water Works' to change its disposal method. This change could result in significant additional costs to the Water Works' infrastructure and operations. As of the date of this report, Management was not able to reasonably estimate costs, if any, that would be incurred to comply with this regulation. Once management understands the new requirements, they will determine if a liability shall be established.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

Note 9. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Works carries commercial insurance for all risks of loss, including errors and omissions, destruction of assets and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Water Works participated in the City workers' compensation self-insurance plan through June 24, 2010 when it enrolled in a fully insured plan with a national insurance group.

As of July 2007, the Water Works participates in a partially self-funding benefit plan for its employees' health insurance. The plan is administered by a third-party, which estimates The Water Works maximum annual exposure to be \$220,800. The Water Works contributes funds monthly to a separate bank account to supplement the employee's deductible. The balance in this account as of December 31, 2011 and 2010 was \$4,970 and \$ 15,615, respectively.

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget Year ended December 31, 2011

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 11,378,431</u>	<u>\$ 4,946,985</u>	<u>\$ 9,334,000</u>
Enterprise – general (expenses)	<u>\$ 23,788,933</u>		<u>\$ 31,813,960</u>

Year ended December 31, 2010

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 29,423,179</u>	<u>\$ 5,075,631</u>	<u>\$ 31,655,500</u>
Enterprise – general (expenses)	<u>\$ 14,543,484</u>		<u>\$ 31,241,150</u>

See Independent Auditors' Report.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES

BUDGET AND ACTUAL (GAAP BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2011

	2011 Actual	2011 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 8,519,060	\$ 8,470,000	\$ 49,060
Rental	106,826	106,000	826
Other	484,151	611,000	(126,849)
Total operating revenues	<u>\$ 9,110,037</u>	<u>\$ 9,187,000</u>	<u>\$ (76,963)</u>
Operating expenses:			
Facilities and maintenance	\$ 743,984	\$ 792,000	\$ 48,016
Inventory adjustment	(563)	10,000	10,563
Purification	1,107,119	1,181,000	73,881
Distribution and meter	1,218,018	1,207,000	(11,018)
Customer accounting	366,911	384,000	17,089
Administration and general	2,298,726	1,945,960	(352,766)
Pension and social security	326,806	300,000	(26,806)
Total operating expenses	<u>\$ 6,061,001</u>	<u>\$ 5,819,960</u>	<u>\$ (241,041)</u>
Operating income	<u>\$ 3,049,036</u>	<u>\$ 3,367,040</u>	<u>\$ (318,004)</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 323,981	\$ 142,000	\$ 181,981
Interest expense	(1,080,971)	(1,008,000)	(72,971)
Loss on disposal of equipment	(1,309)	(15,000)	13,691
Nonoperating revenues, net	<u>\$ (758,299)</u>	<u>\$ (881,000)</u>	<u>\$ 122,701</u>
Change in net assets before depreciation	<u>\$ 2,290,737</u>	<u>\$ 2,486,040</u>	<u>\$ (195,303)</u>
Depreciation	(2,833,855)		
Contributions in aid of construction	26,716		
	<u>\$ (516,402)</u>		
Total net assets beginning	<u>40,174,435</u>		
Total net assets ending	<u>\$ 39,658,033</u>		

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Indirect			
Pass-Through Iowa Finance Authority			
Environmental Protection Agency			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0043R	\$ 1,453,796
Pass-Through State of Iowa Emergency Management			
US Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	155-U59RE-00	\$ 28,569
			<u>\$ 1,482,365</u>

Note 1. Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of the Council Bluffs City Water Works and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

Council Bluffs City Water Works had the following loan balances outstanding at December 31, 2011. Loans made during the year are included in the federal expenditures presented in this schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 1,453,796



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

We have audited the financial statements of the Council Bluffs City Water Works as of and for the year ended December 31, 2011, and have issued our report thereon dated April 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council Bluffs City Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council Bluffs City Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 13, 2012



Hamilton Associates, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

Compliance

We have audited the compliance of Council Bluffs City Water Works with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Council Bluffs City Water Works' major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Council Bluffs City Water Works' management. Our responsibility is to express an opinion on Council Bluffs City Water Works' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council Bluffs City Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council Bluffs City Water Works' compliance with those requirements.

In our opinion, Council Bluffs City Water Works complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Council Bluffs City Water Works' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Council Bluffs City Water Works' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Council Bluffs, Iowa
April 13, 2012

Hamilton Associates, P.C.

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | | |
|---|-----|---|------------------|
| • Material weakness(es) identified? | Yes | X | No |
| • Significant deficiency(ies) identified? | Yes | X | None
Reported |
| Noncompliance material to financial statements noted? | Yes | X | No |

Federal Awards

Internal control over major programs:

- | | | | |
|---|-----|---|------------------|
| • Material weakness(es) identified? | Yes | X | No |
| • Significant deficiency(ies) identified? | Yes | X | None
Reported |

Type of auditor's report issued on compliance for major programs: Unqualified

- | | | | |
|--|-----|---|----|
| • Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes | X | No |
|--|-----|---|----|

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

II. FINANCIAL STATEMENT FINDINGS - None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - None



CONFIDENTIAL

To the Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

We have applied certain agreed-upon procedures, as discussed below, which were agreed to by the Board of Trustees and management of Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) solely to assist you with respect to the accounting records of the Water Works. This engagement to provide agreed-upon procedures was performed in accordance with Standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Depository Resolution - We reviewed the latest resolution naming official depositories. We found that deposits at Council Bluffs Savings Bank did not exceed the maximum depository amount as of December 31, 2011.
2. Certified Budget - We compared the Water Works disbursements for the twelve months ended December 31, 2011 with the published budget and found that disbursements exceeded the amount budgeted.

The Missouri River Valley experienced 500 year flood conditions in the summer of 2011. Excess snow melts in the Rocky Mountains and record spring rains in Wyoming resulted in record levels of water released from the Missouri River dam system. The Council Bluffs Water Works and water treatment plant is located on the Missouri River and relies on the River as its primary source of water. Management was required to implement an emergency plan in order to minimize the damage caused by the flooding. Management has calculated the cost incurred to fight the flood to be approximately \$779,663 for 2011. Additional costs are expected to be incurred in 2012. As a result of the significant unplanned costs and the limited time to amend the budget, disbursements exceeded the amount budgeted for 2011. During this time frame the Board of Trustees continued to meet monthly, approve disbursements and received updates on the flood conditions. Management has requested \$915,199 in funding from Federal Emergency Management Agency (FEMA). As of December 31, 2011 they have received \$28,569 of the request. As of the date of this report, Management expects to receive \$437,876 that will be recorded as income in the 2012 budget year.

Recommendation: The Council Bluffs Water Works should officially amend the budget for large unexpected costs as soon as those costs can be reasonably determined.

Response: Due to the flood, construction on the Council Point Water Treatment facility was delayed and construction costs for the year were under budget. This

was enough to offset the operating and interest expenses that exceeded the budget.

Conclusion: Response accepted.

3. Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
4. Travel Expense – No disbursements of Water Works' money for travel expenses of spouses of Water Works' officials or employees were noted.
5. Business Transactions – During the course of our audit of the Water Works as of December 31, 2011 we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.
6. Bond Coverage – We reviewed the statutory provisions for surety bond coverage of Water Works' officials and employees. We have previously contacted the Council Bluffs City Attorney and he confirmed that there is no state mandated coverage for the Water Works. The City has an ordinance allowing the City to set bonding requirements for the Water Works. Resolution 83-475 sets the amount of surety bond coverage for board members at \$500 annually. Water Works maintains public officials' liability insurance, which sufficiently meets bond coverage requirements.
7. Board Minutes – We reviewed the minutes for the Board of Directors meetings for 2011 and found no transactions that we believe should have been approved in the Board minutes but were not.
8. Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note requirements for the year ended December 31, 2011 were noted.

Because the above procedures do not constitute an audit, we do not express an opinion on any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the above summaries should be adjusted. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of the Water Works taken as a whole.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose. However, this report is a matter of public record and its distribution is not limited.

Hamilton Associate P.C.

Council Bluffs, IA
April 13, 2012